

Business leagues; insurance companies; no-fault protection. A nonprofit organization composed of insurance companies operating within a state and created under the state's no-fault insurance statute to provide personal injury protection benefits for residents of the state who sustain injury in situations where the injuring party is unknown or has very limited or no liability coverage qualifies for exemption under section 501(c)(6) of the Code.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

The organization is a nonprofit association composed of insurance companies. It was created pursuant to a state's no-fault insurance statute to provide personal injury protection for certain residents of the state who might sustain injury and not be covered by any insurance.

The organization provides personal injury protection benefits to those residents of the state who suffer injury in situations where the injuring party has no liability insurance coverage or very limited coverage or the injuring party is unknown. For example, a resident pedestrian injured by an out-of-state uninsured motorist would not be covered by conventional policies under the state's no-fault law. Under the statute, however, the injured party is able to file a claim with the organization. The claim is registered and assigned to one of the organization's member companies, which is designated as a servicing member, to process and pay the claim. The servicing member is reimbursed by the organization for the amount paid plus expenses incurred.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues not organized for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common business interest. The activities of the association must be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

The organization's activities promote the common business interests of its members by fulfilling an obligation that the state has imposed upon the insurance industry as a prerequisite for doing business within the state and by enhancing the image of the industry. Moreover, because every insurance company operating within the state is required to be a member, there is no competitive advantage gained by membership in the organization. All of the above factors indicate that the organization's

activities are directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for its individual members. See Rev. Rul. 71-155, 1971-1 C.B. 152, and Rev. Rul. 73-452, 1973-2 C.B. 183. Accordingly, the organization is exempt from Federal income tax under section 501(c)(6) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1024, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(c)(6) of the Code. The application should be filed with the District Director of Internal Revenue for the key district indicated in the instructions to the Form 1024. See section 1.501(a)-1 of the regulations.